Agriculture and Agri-Food Canada | Agriculture et Agroalimentaire Canada

AGRICULTURE AND AGRI-FOOD CANADA

Financial Statements (Unaudited)
For the year ended March 31, 2010

Canada

Statement of Management Responsibility Including Internal Control over Financial Reporting

Responsibility for the integrity and objectivity of the accompanying financial statements for the year ended March 31, 2010, and all information contained in these statements rests with the management of the Department of Agriculture and Agri-Food Canada. These financial statements have been prepared by management in accordance with Treasury Board accounting policies, which are based on Canadian generally accepted accounting principles for the public sector.

Management is responsible for the integrity and objectivity of the information in these financial statements. Some of the information in the financial statements is based on management's best estimates and judgment, and gives due consideration to materiality. To fulfill its accounting and reporting responsibilities, management maintains a set of accounts that provides a centralized record of the Department's financial transactions. Financial information submitted in the preparation of the *Public Accounts of Canada*, and included in the Department's *Departmental Performance Report*, is consistent with these financial statements.

Management is also responsible for maintaining an effective system of internal control over financial reporting designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly authorized and recorded in accordance with the *Financial Administration Act* and other applicable legislation, regulations, authorities and policies.

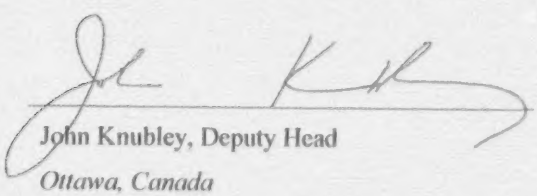
Management seeks to ensure the objectivity and integrity of data in its financial statements through careful selection, training, and development of qualified staff; through organizational arrangements that provide appropriate divisions of responsibility; through communication programs aimed at ensuring that regulations, policies, standards, and managerial authorities are understood throughout the Department; and through conducting an annual assessment of the effectiveness of the system of internal control over financial reporting.

An assessment for the year ended March 31, 2010 was completed in accordance with the Policy on Internal Control and the results and action plans are summarized in the annex.

The system of internal control over financial reporting is designed to mitigate risks to a reasonable level based on an on-going process to identify key risks, to assess effectiveness of associated key controls, and to make any necessary adjustments.

The effectiveness and adequacy of the Department's system of internal control is reviewed by the work of internal audit staff, who conduct periodic audits of different areas of the Department's operations, and by the Departmental Audit Committee, which oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting.

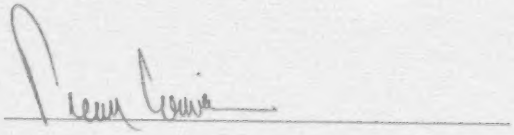
The financial statements of the Department have not been audited.



John Knubley, Deputy Head

Ottawa, Canada

August 13, 2010



Pierre Corriveau, Chief Financial Officer

AGRICULTURE AND AGRI-FOOD CANADA
Statement of Financial Position (*Unaudited*)
As at March 31
(*in thousands of dollars*)

	2010	2009 Restated (Note 16)
ASSETS		
Financial assets		
Due from Consolidated Revenue Fund	$ 1,867,090	$ 2,025,822
Accounts receivable (Note 4)	312,993	225,202
Loans receivable and program advances (Note 5)	426,315	448,979
Total financial assets	2,606,398	2,700,003
Non-financial assets		
Prepaid expenses and inventory	4,389	20,077
Tangible capital assets (Note 6)	380,828	328,240
Total non-financial assets	385,217	348,317
	$ 2,991,615	$ 3,048,320
LIABILITIES AND EQUITY OF CANADA		
Liabilities		
Accounts payable and accrued liabilities (Note 7)	$ 2,067,285	$ 2,184,786
Accrued salaries, vacation pay and compensatory leave	44,759	71,720
Deferred revenue (Note 8)	12,201	11,800
Employee future benefits (Note 9)	104,857	109,040
Other liabilities (Note 10)	601,780	418,498
	2,830,882	2,795,844
Equity of Canada (Note 11)	160,733	252,476
	$ 2,991,615	$ 3,048,320

Contingencies (Note 12)
Contractual obligations (Note 13)

The accompanying notes form an integral part of these financial statements.

John Knubley, Deputy Head

Ottawa, Canada

August 13, 2010

Pierre Corriveau, Chief Financial Officer

AGRICULTURE AND AGRI-FOOD CANADA
Statement of Operations (*Unaudited*)
For the Year Ended March 31
(*in thousands of dollars*)

	2010 Planned Results	2010	2009 Restated (Note 16)
Expenses			
Business Risk Management	$ 2,093,794	$ 1,278,642	$ 1,293,274
Internal Services	287,560	404,611	449,944
Science, Innovation and Adoption	337,250	273,041	562,290
Trade and Market Development	97,474	99,359	78,754
On-Farm Action	140,847	97,391	40,646
Food Safety and Biosecurity Risk Management Systems	142,117	90,298	54,510
Environmental Knowledge, Technology, Information and Measurement	64,347	86,595	178,585
Agri-Business Development	45,027	45,967	27,585
Rural and Co-operatives Development	20,984	21,676	16,472
Canadian Pari-Mutuel Agency	13,706	12,453	12,680
Regulatory Efficiency Facilitation	37,899	11,020	16,098
Farm Products Council of Canada	2,709	2,974	3,020
Total expenses	3,283,714	2,424,027	2,733,858
Revenues			
Business Risk Management	12,660	84,396	248,276
Internal Services	14,696	7,787	9,529
Science, Innovation and Adoption	22,675	18,073	19,888
Trade and Market Development	151	33	10
On-Farm Action	19,635	18,161	18,658
Food Safety and Biosecurity Risk Management Systems	2,294	293	403
Environmental Knowledge, Technology, Information and Measurement	6,140	63	575
Agri-Business Development	1,559	-	-
Rural and Co-operatives Development	382	-	-
Canadian Pari-Mutuel Agency	13,706	12,443	13,690
Regulatory Efficiency Facilitation	811	6	121
Farm Products Council of Canada	-	-	-
Total revenues	94,709	141,255	311,150
Net cost of operations	$ 3,189,005	$ 2,282,772	$ 2,422,708

Segmented information (Note 15)

The accompanying notes form an integral part of these financial statements.

AGRICULTURE AND AGRI-FOOD CANADA

Statement of Equity of Canada (*Unaudited*)
For the Year Ended March 31
(*in thousands of dollars*)

	2010	2009 Restated (Note 16)
Equity of Canada, beginning of year	$ 252,476	$ (162,977)
Net cost of operations	(2,282,772)	(2,422,708)
Net cash provided by Government	2,284,526	2,497,864
Change in due from the Consolidated Revenue Fund	(158,732)	282,633
Services provided without charge by other government departments (Note 14)	65,235	57,664
Equity of Canada, end of year	$ 160,733	$ 252,476

The accompanying notes form an integral part of these financial statements.

AGRICULTURE AND AGRI-FOOD CANADA
Statement of Cash Flows (*Unaudited*)
For the Year Ended March 31
(in thousands of dollars)

	2010	2009 Restated (Note 16)
Operating activities		
Net cost of operations	$ 2,282,772	$ 2,422,708
Non-cash items:		
Amortization of tangible capital assets	(40,013)	(41,552)
Gain (Loss) on disposal of tangible capital assets	(5)	(38)
Non-cash changes of tangible capital assets	17,189	163
Services provided without charge by other government departments (Note 14)	(65,235)	(57,664)
Variations in Statement of Financial Position		
Increase (decrease) in accounts receivable	87,791	122,346
Increase (decrease) in loans receivable and program advances	(22,664)	(58,757)
Increase (decrease) in prepaid expenses and inventory	(15,688)	15,562
Decrease (increase) in accounts payable and accrued liabilities	117,501	198,244
Decrease (increase) in accrued salaries, vacation pay and compensatory leave	26,961	(19,395)
Decrease (increase) in deferred revenue	(401)	838
Decrease (increase) in employee future benefits	4,183	(13,742)
Decrease (increase) in other liabilities	(183,282)	(102,020)
Cash used in operating activities	2,209,109	2,466,693
Capital investing activities		
Acquisition of tangible capital assets	75,656	31,379
Trade-in of tangible capital assets with no monetary impact	(64)	(94)
Proceeds from disposal of tangible capital assets	(175)	(114)
Cash used in capital investing activities	75,417	31,171
Net cash provided by Government of Canada	$ 2,284,526	$ 2,497,864

The accompanying notes form an integral part of these financial statements.

1. Authority and objectives

The Department of Agriculture and Agri-Food was originally established in 1868. Under the *Department of Agriculture and Agri-Food Act*, the Minister is responsible for agriculture, products derived from agriculture and research related to agriculture and products derived from agriculture including the operation of experimental farm stations, unless they have been assigned by law to another department, board or agency.

The Department provides information, research and technology, and policies and programs to achieve security of the food system, health of the environment and innovation for growth.

Business Risk Management

Agriculture and Agri-Food Canada has a comprehensive business risk management program to better equip producers with the tools and capacity to manage business risks. This program provides coverage for small income declines, margin-based support for larger income losses, a disaster relief framework for rapid assistance to producers and production insurance to protect farmers against production losses due to uncontrollable natural hazards. In addition, assistance to producers through the provision of Financial Guarantees facilitates the marketing of producers' products when market conditions and prices may be more favourable.

Internal Services

Internal Services are groups of related activities and resources that are administered to support the needs of programs and other corporate obligations of an organization. These groups are: Management and Oversight Services; Communications Services; Legal Services; Human Resources Management Services; Financial Management Services; Information Management Services; Information Technology Services; Real Property Services; Materiel Services; Acquisition Services; and Travel and Other Administrative Services. Internal Services include only those activities and resources that apply across an organization and not to those provided specifically to a program.

Science, Innovation and Adoption

Agriculture and Agri-Food Canada contributes to the competitiveness of the agriculture, agri-food and agri-based products sector by supporting innovation designed to improve profitability in new and existing products, services, processes and markets. Coordinated and informed decision-making is supported with strategic foresight, research, and information sharing contributing to integrated planning engaging industry, government and academia. Collaborative action is promoted to accelerate the flow of science and technology along the innovation continuum in support of industry defined strategies for future success. Farmers, agri-entrepreneurs and agri-based small and medium sized enterprises are supported in their efforts to adopt new technologies and commercialize new products and services. Pathfinding and transformational research, help to define future opportunities and prepare the sector for emerging opportunities and challenges.

Trade and Market Development

Agriculture and Agri-Food Canada acts as Canada's agricultural trade advocate, working to break down trade barriers at home and abroad and expand opportunities for the agriculture, agri-food and agri-based products sector. Agriculture and Agri-Food Canada assists the sector in identifying new domestic and global opportunities, markets and ways to enhance productivity, competitiveness and prosperity. Agriculture and Agri-Food Canada also works to distinguish Canadian products under Brand Canada International and the Domestic Branding Strategy to expand and deepen the sector's strengths in the marketplace.

On-Farm Action

Agriculture and Agri-Food Canada supports farmers through direct on-farm programming that identifies environmental risks and opportunities and promotes the continuous growth of the stewardship ethic within the agriculture and agri-food industry. Agriculture and Agri-Food Canada supports farmers through agri-environmental risk assessment and planning; providing expertise, information and incentives to increase the adoption of sustainable agriculture practices at the farm and landscape levels; investigating and developing new approaches that encourage and support the adoption of sustainable agriculture practices; and increasing the recognition of the value of sustainable agriculture practices. This program supports environmental stewardship and helps reduce the sector's overall impact on the environment. It contributes to a cleaner environment and healthier living conditions for Canadian people, and a more profitable agriculture sector.

Food Safety and Biosecurity Risk Management Systems

Agriculture and Agri-Food Canada supports producers and organizations in the development and implementation of food safety, biosecurity and traceability risk management systems to prevent and control risks to the animal and plant resource base thus strengthening the sector against widespread diseases and losses in domestic and foreign markets. The risk management systems are national, government-recognized on-farm and/or post-farm Hazard Analysis of Critical Control Points (HACCP) or HACCP-based food safety systems, National Biosecurity Systems and a National Agriculture and Food Traceability System. These systems also support emergency management to limit the spread of animal and plant diseases, thereby reducing economic, environmental and social impacts of a crisis. A National Animal and Plant Biosecurity Strategy provides overall policy direction ensuring efforts are targeted at the highest possible biosecurity risks. Eligible recipients include national or regional non-profit organizations, producers and industry stakeholders.

Environmental Knowledge, Technology, Information and Measurement

Agriculture and Agri-Food Canada is focused on supporting the sector through initiatives that enable them to use a more systematic management approach to making decisions with respect to environmental risks, and help identify suitable corrective actions. Agriculture and Agri-Food Canada is conducting basic and applied research to improve scientific understanding of agriculture's interactions with the environment on the key environmental challenges facing Canada and its regions; developing sustainable agricultural practices and validating environmental and economic performance at the farm and landscape levels; and developing, enhancing and using agri-environmental indicators, greenhouse gas accounting systems and economic indicators to assess the sector's environmental and economic sustainability. This program provides the platform for innovation and discovery of technologies and strategies to improve the agri-environmental performance of the sector.

Agri-Business Development

This program activity builds awareness of the benefits and encourages the use of sound business management practices, while also enabling businesses in the sector to be profitable and invest where needed to manage the natural resource base sustainably and to market and produce safe food and other products. The Agri-Business Development program funds provincial and territorial activities related to business management practices and skills that: strengthen the capacity of businesses in the sector to assess the financial implications of business improvements, including the impact of environmental plans, food safety systems and innovation projects on their business profitability; manage transformation, respond to change and adopt innovation in business operations; help the agri-business owner understand their financial situation, implement effective action and business management plans/practices and provide for enhanced participation by young or new entrants, First Nations clients, and clients in specific sub-sectors in transition.

Rural and Co-operatives Development

Rural and Co-operatives Development supports community development through two distinct components:

- First, it leads an integrated, government-wide approach, called Canada's Rural Partnership, through which the government aims to coordinate its policies towards the goal of economic and social development and renewal of rural Canada. It develops partnerships with federal departments, provincial and rural stakeholders and offers tools to enable rural communities to use their innovative capacity to capture the value of local amenities, and to achieve greater local or regional economic competitiveness.

- Second, it facilitates the development of co-operatives as an effective self-help tool for Canadians and communities to address their needs and capture economic opportunities. It provides advice across government on policies and programs affecting co-operatives and builds partnerships within the federal government and with the co-operative sector, the provinces and other key stakeholders to support the development of co-operatives.

Canadian Pari-Mutuel Agency

Section 204 of the Criminal Code of Canada designates the Minister of Agriculture and Agri-Food as the individual responsible for the policy and regulatory functions pertaining to pari-mutuel wagering on horse races. The Canadian Pari-Mutuel Agency is a special operating agency within Agriculture and Agri-Food Canada that regulates and supervises pari-mutuel betting on horse racing at racetracks across Canada, with the objective of ensuring that pari-mutuel betting is conducted in a way that is fair to the betting public. Costs associated with the activities of the Canadian Pari-Mutuel Agency are recovered through a levy on every dollar bet on horse races in Canada. The levy is currently set at eight-tenths of a cent of every dollar bet. Canadian Pari-Mutuel Agency's strategic plans are focused on regulating and supervising pari-mutuel wagering on horse races in the most modern, effective and transparent manner.

Regulatory Efficiency Facilitation

Agriculture and Agri-Food Canada is undertaking initiatives to ensure that the regulatory environment promotes sector innovation, investment and competitiveness. The Department recognizes that with the rapid pace of technological advancement and emerging gaps between international and domestic regulatory policies. Canada's regulatory environment will need to increase capacities and accelerate modernization to be responsive. The initiatives will involve working with stakeholders along the value chain to enhance their ability to fulfill regulatory requirements and collaborating with federal partners and industry to find ways of streamlining the regulatory burden through targeted actions on sector priorities, while at the same time maintaining Canada's strong regulatory system with respect to health and safety. Improving the timeliness and transparency of science-based regulatory decision-making will also contribute to improved public stakeholder confidence.

Farm Products Council of Canada

Established through the *Farm Products Agencies Act* (the Act), the Farm Products Council of Canada is a unique public interest oversight body which reports to Parliament through the Minister of Agriculture and Agri-Food (the Minister). The Act provides for the creation of national marketing and promotion research agencies. The Farm Products Council of Canada supervises these agencies and works with them to ensure that the supply management system for poultry and eggs and the check-off system for beef cattle work in the balanced interest of all stakeholders, from producers to consumers. The Farm Products Council of Canada is also an active proponent of portfolio management by providing advice to the Minister and maintaining relationships with provincial governments.

2. Summary of significant accounting policies

These financial statements have been prepared in accordance with the Treasury Board accounting policies stated below, which are based on Canadian generally accepted accounting principles for the public sector. The presentation and results using the stated accounting policies do not result in any significant differences from Canadian generally accepted accounting principles.

Significant accounting policies are as follows:

(a) Parliamentary authorities – The Department is financed by the Government of Canada through Parliamentary authorities. Financial reporting of authorities provided to the Department do not parallel financial reporting according to generally accepted accounting principles since authorities are primarily based on cash flow requirements. Consequently, items recognized in the Statement of Operations and the Statement of Financial Position are not necessarily the same as those provided through authorities from Parliament. Note 3 provides a reconciliation between the bases of reporting. The planned results amounts in the Statement of Operations are the amounts reported in the future-oriented financial statements included in the 2010 Report on Plans and Priorities.

(b) Consolidation – These consolidated financial statements include the accounts of the sub-entities that are under the control of the Department. The accounts of these subentities have been consolidated with those of the Department and all inter-organizational balances and transactions have been eliminated. The accounting entity comprises of the Department of Agriculture and Agri-Food, the Farm Products Council of Canada, and the Canadian Pari-Mutuel Agency. The financial statements do not include the accounts of the Canadian Food Inspection Agency, the Canadian Wheat Board, the Canadian Grain Commission, the Canadian Dairy Commission and Farm Credit Canada because they are not under the control of Agriculture and Agri-Food Canada and therefore, are not consolidated.

(c) Net Cash Provided by Government – The Department operates within the Consolidated Revenue Fund (CRF), which is administered by the Receiver General for Canada. All cash received by the Department is deposited to the CRF and all cash disbursements made by the Department are paid from the CRF. The net cash provided by Government is the difference between all cash receipts and all cash disbursements including transactions between departments of the Government.

(d) Due from the Consolidated Revenue Fund – The amounts are the result of timing differences at year-end between when a transaction affects authorities and when it is processed through the CRF. Amounts due from the CRF represent the net amount of cash that the Department is entitled to draw from the CRF without further appropriations to discharge its liabilities.

(e) Revenues:

Revenues from regulatory fees are recognized in the accounts based on the services provided in the year.

Funds received from external parties for specified purposes are recorded upon receipt as deferred revenue. These revenues are recognized in the period in which the related expenses are incurred.

Funds that have been received are recorded as deferred revenue, provided the Department has an obligation to other parties for the provision of goods, services or the use of assets in the future.

Other revenues are accounted for in the period in which the underlying transaction or event that gave rise to the revenue takes place.

Refunds of prior year expenses are recorded in the period when they are received.

Interest revenue is recognized when earned. Interest revenue ceases to be accrued when either principal or interest is not reasonably collectable.

(f) Expenses – Expenses are recorded on the accrual basis:

Grants are recognized in the year in which the conditions for payment are met. In the case of grants which do not form part of an existing program, the expense is recognized when the Government announces a decision to make a non-recurring transfer, provided the enabling legislation or authorization for payment receives parliamentary approval prior to the completion of the financial statements.

Contributions are recognized in the year in which the recipient has met the eligibility criteria or fulfilled the terms of a contractual transfer agreement, provided that the transfer is authorized and a reasonable estimate can be made.

Vacation pay and compensatory leave are accrued as the benefits are earned by employees under their respective terms of employment.

Services provided without charge by other government departments for the employer's contribution to the health and dental insurance plans, accommodation, legal services, and workers' compensation are recorded as operating expenses at their estimated cost.

(g) Employee future benefits:

(i) Pension benefits: Eligible employees participate in the Public Service Pension Plan, a multiemployer pension plan administered by the Government. The Department's contributions to the Plan are charged to expenses in the year incurred and represent the total departmental obligation to the Plan. Current legislation does not require the Department to make contributions for any actuarial deficiencies of the Plan.

(ii) Severance benefits: Employees are entitled to severance benefits under labour contracts or conditions of employment. These benefits are accrued as employees render the services necessary to earn them. The obligation relating to the benefits earned by employees is calculated using information derived from the results of the actuarially determined liability for employee severance benefits for the Government as a whole.

(h) Accounts and loans receivables – The amounts are stated at the lower of cost and net recoverable value; a valuation allowance is recorded for receivables where recovery is considered uncertain.

(i) Repayable contributions – The Department has conditionally repayable contributions that, all or part of which become repayable, if conditions specified in the contribution agreement come into effect. Accordingly, they are not recorded on the Statement of Financial Position until such time as the conditions specified in the agreement come into effect at which time they are recorded as a receivable and a reduction in transfer payment expenses. An estimated allowance for uncollectibility is recorded where appropriate.

(j) Contingencies – Contingencies are potential recoveries or liabilities which may become actual recoveries or liabilities when one or more future events occur or fail to occur.

(i) Contingent liabilities – To the extent that the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded. If the likelihood is not determinable or an amount cannot be reasonably estimated, the contingency is disclosed in the notes to the financial statements.

(ii) Contingent recoveries – Contingent gains are not accrued in financial statements. However, a contingent gain which is considered likely to be realized is disclosed in the notes to the financial statements.

(k) Loan and Price Guarantees – An allowance on loans or price guarantees is recorded in the accounts when it is likely that a payment will be made to honor a guarantee and where the amount of the anticipated loss can be reasonably estimated. The amount of the allowance for losses is determined based on historical loss experience and economic conditions adversely affecting the capacity of borrowers to reimburse the loan. The allowance is reviewed on a regular basis and the variations are recorded in the statement of operations.

(l) Environmental liabilities – Environmental liabilities reflect the estimated costs related to the management and remediation of environmentally contaminated sites. Based on management's best estimates, a liability is accrued and an expense recorded when the contamination occurs or when the Department becomes aware of the contamination and is obligated, or is likely to be obligated to incur such costs. If the likelihood of the Department's obligation to incur these costs is not determinable, or if an amount cannot be reasonably estimated, the costs are disclosed as contingent liabilities in the notes to the financial statements.

(m) Tangible capital assets – All tangible capital assets and leasehold improvements having an initial cost of $10,000 or more are recorded at their acquisition cost. The Department does not capitalize intangibles, works of art and historical treasures that have cultural, aesthetic or historical value and museum collections.

Amortization of tangible capital assets is done on a straight-line basis over the estimated useful life of the asset as follows:

Asset class	Amortization period
Buildings	20 to 30 years
Works and infrastructure	15 to 40 years
Machinery and equipment	7 to 20 years
Vehicles	7 to 25 years
Computer Hardware and Software	3 to 5 years
Leasehold improvements	Lesser of the remaining term of the lease or useful life of the improvement

Assets under construction are recorded in the applicable capital asset class in the year that they become available for use and are not amortized until they become available for use.

(n) Measurement uncertainty – The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported in the financial statements. At the time of preparation of these statements, management believes the estimates and assumptions to be reasonable. The most significant items where estimates are used are contingent liabilities, allowance for loan guarantees, the useful life of tangible capital assets, the liability for employee severance benefits, environmental liabilities. Actual results could significantly differ from those estimated. Management's estimates are reviewed periodically and, as adjustments become necessary, they are recorded in the financial statements in the year they become known.

3. Parliamentary Authorities

The Department receives most of its funding through annual Parliamentary authorities. Items recognized in the statement of operations and the statement of financial position in one year may be funded through Parliamentary authorities in prior, current or future years. Accordingly, the Department has different net results of operations for the year on a government funding basis than on an accrual accounting basis. The differences are reconciled in the following tables:

(a) Reconciliation of net cost of operations to current year authorities used

	2010	2009 Restated (Note 16)
Net cost of operations	$ 2,282,772	$ 2,422,708
Adjustments for items affecting net cost of operations but not affecting authorities:		
Repayable contributions	246,409	-
Net Crop Re-insurance Fund revenues	68,660	236,622
Services provided without charge by other government departments	(65,235)	(57,664)
Amortization of tangible capital assets	(40,013)	(41,552)
Increase (decrease) in employee future benefits	4,183	(13,742)
Revenue not available for spending	19,413	22,216
Adjustment to tangible capital assets	15,904	-
Increase (decrease) in prepaid and inventory	(15,718)	15,499
Refund of prior years' expenditures	11,695	2,472
Increase (decrease) in environmental and accrued liabilities	10,314	1,650
Increase (decrease) in loan guarantees and bad debts	(6,144)	(35,456)
Increase (decrease) in vacation pay and compensatory leave	(2,084)	2,083
Other	(652)	(580)
	246,732	131,548
Adjustments for items not affecting net cost of operations but affecting authorities:		
Acquisitions of tangible capital assets	75,656	31,379
Increase in inventory	30	63
	75,686	31,442
Current year authorities used	$ 2,605,190	$ 2,585,698

(b) Authorities provided and used

	2010	2009
Authorities Provided:		
Vote 1 - Operating expenditures	$ 770,999	$ 744,453
Vote 5 - Capital expenditures	63,890	54,589
Vote 10 - Transfer payments	502,688	691,552
Vote 22 - Canadian Pari-Mutuel Agency - Program expenditures	525	-
Statutory amounts	1,545,468	1,275,910
Less:		
Authorities available for future years	5,449	5,507
Lapsed authorities	272,931	175,299
Current year authorities used	$ 2,605,190	$ 2,585,698

4. Accounts receivable

The following table presents details of the Department's accounts receivable balances:

	2010	2009 Restated (Note 16)
Receivables from other government departments and agencies	$ 6,835	$ 12,843
Receivables from external parties	360,330	242,316
	367,165	255,159
Allowance for doubtful accounts on receivables from external parties	(54,172)	(29,957)
	$ 312,993	$ 225,202

5. Loans receivable and program advances

The following table presents details of the Department's loans receivable and program advances balances:

	2010	2009 Restated (Note 16)
Loans resulting from loan guarantee programs	$ 144,518	$ 129,391
Allowance for doubtful loans	(105,871)	(95,699)
	38,647	33,692
Program advances to Crop Re-insurance Fund	387,615	415,235
Loans for construction of exhibition buildings	53	52
	$ 426,315	$ 448,979

Loans resulting from loan guarantee programs

The Department's loan receivables are the result of the exercise of loan guarantees by the initial lender under the terms of various loan guarantee programs. These loans are in default with the initial lender and due immediately to the Department. Interest rates on these loans vary according to the initial terms of the loans and applicable government regulations. An allowance for doubtful accounts is recorded to reflect the loans at their net realizable value.

Program advances to Crop Re-insurance Fund

The program provides support to participating provincial governments for costs they incur in operating various crop insurance programs. Payments are made only when indemnities exceed accumulated premium reserves due to severe crop losses. In fiscal year 2010, the Department has advanced $387,615,000 to the fund ($415,235,000 in 2009) and owes the equivalent amount to the Department of Finance. In fiscal year 2010, the advance was reduced by $27,620,000 ($55,620,000 in 2009). The advance to the fund is non-interest bearing and at least 10% of the principal is repayable annually when the Crop Re-insurance fund account balance exceeds $100,000,000.

6. Tangible capital assets

Capital asset class	Cost				
	Opening balance	Acquisitions	Disposals and write-offs	Transfers and reclassifications	Closing Balance
Land	$ 12,991	-	-	-	$ 12,991
Buildings	563,241	627	341	3,504	567,031
Works and infrastructure	54,057	-	-	283	54,340
Machinery and equipment	159,587	20,928	4,320	469	176,664
Vehicles	55,034	7,767	1,535	512	61,778
Leasehold improvements	13,258	-	-	-	13,258
Computer hardware and software	51,596	7,538	796	16,626	74,964
Assets under construction	9,968	38,796	-	(3,792)	44,972
Total	$ 919,732	$ 75,656	$ 6,992	$ 17,602	$ 1,005,998

Capital asset class	Accumulated Amortization				
	Opening Balance	Amortization	Disposals and write-offs	Transfers and reclassifications	Closing Balance
Land	-	-	-	-	-
Buildings	362,969	18,988	309	2	381,646
Works and infrastructure	20,070	1,461	-	(85)	21,616
Machinery and equipment	115,064	7,916	4,234	(316)	119,062
Vehicles	37,450	3,332	1,473	(252)	39,561
Leasehold improvements	12,561	476	-	-	13,037
Computer hardware and software	43,378	7,840	796	174	50,248
Assets under construction	-	-	-	-	-
Total	$ 591,492	$ 40,013	$ 6,812	$ (477)	$ 625,170

Capital asset class	Net book value 2010	2009
Land	$ 12,991	$ 12,991
Buildings	185,385	200,272
Works and infrastructure	32,724	33,987
Machinery and equipment	57,602	44,523
Vehicles	22,217	17,584
Leasehold improvements	221	697
Computer hardware and software	24,716	8,218
Assets under construction	44,972	9,968
Total	$ 380,828	$ 328,240

Disposals of assets under construction represent assets that were put into use in the year and have been transferred to the other capital asset classes as applicable.

7. Accounts payable and accrued liabilities

The following table presents details of the Department's accounts payable and accrued liabilities:

	2010	2009
Accounts payable to the Department of Finance for Crop Re-insurance Fund	$ 387,615	$ 415,235
Accounts payable to external parties	173,351	417,566
Accounts payable to other government departments and agencies	25,870	12,241
	586,836	845,042
Environmental liabilities	1,359	1,238
Accrued liabilities	1,479,090	1,338,506
	$ 2,067,285	$ 2,184,786

8. Deferred Revenue

Deferred revenue represents the balance at year-end of unearned revenues stemming mainly from joint collaborative agreements and cost-sharing agreements which are restricted to fund the expenditures related to specific research projects and amounts received for fees prior to services being performed. Revenue is recognized in the period that these expenditures are incurred or the service is performed. Details of the transactions related to this account are as follows:

		2010		2009
Opening balance	$	11,800	$	12,638
Amounts received		5,689		4,018
Revenue recognized		(5,288)		(4,856)
Closing balance	$	12,201	$	11,800

9. Employee future benefits

(a) Pension benefits

The Department's employees participate in the Public Service Pension Plan, which is sponsored and administered by the Government. Pension benefits accrue up to a maximum period of 35 years at a rate of 2 percent per year of pensionable service, times the average of the best five consecutive years of earnings. The benefits are integrated with Canada/Québec Pension Plans benefits and they are indexed to inflation.

Both the employees and the Department contribute to the cost of the Plan. The 2010 expense amounts to $60,006,000 ($54,490,000 in 2009), which represents approximately 1.9 times (2.0 times in 2009) the contributions by employees.

The Department's responsibility with regard to the Plan is limited to its contributions. Actuarial surpluses or deficiencies are recognized in the financial statements of the Government of Canada, as the Plan's sponsor.

(b) Severance benefits

The Department provides severance benefits to its employees based on eligibility, years of service and final salary. These severance benefits are not pre-funded. Benefits will be paid from future authorities. Information about the severance benefits, measured as at March 31, is as follows:

	2010	2009
Accrued benefit obligation, beginning of year	$ 109,040	$ 95,298
Expense for the year	3,720	22,196
Benefits paid during the year	(7,903)	(8,454)
Accrued benefit obligation, end of year	$ 104,857	$ 109,040

10. Other liabilities

The Department holds funds in trust from the AgriInvest program, the AgriStability program, Net Income Stabilization Account (NISA) program as well as security deposits.

AgriInvest is a producer savings account program that replaces the coverage for smaller income declines than was provided by previous programs. Program payments are cost-shared with the province or territory. The AgriInvest account balance represents the federal and provincial/territorial contributions to the program that producers can withdraw under specific terms and conditions.

The AgriStability program helps producers protect their farming operations against larger drops in income. Program payments are shared 60% federally and 40% provincially/territorially. The provincial/territorial share of the contributions and interest paid on the contributions are held in a specified purpose account until the producers draw down their funds.

The NISA program was established by section 15 of the *Farm Income Protection Act*. The NISA account balance represented the federal and provincial/territorial contributions to the program. Deposits to the fund ended in 2002. Participants had to withdraw funds over a maximum of five years ending March 31, 2009.

AgriInvest, AgriStability, NISA and security deposit account activity during the year was as follows:

		2010		2009
Opening balance	$	418,498	$	316,478
Deposits		539,176		676,323
Withdrawals		(355,894)		(574,303)
Ending balance	$	601,780	$	418,498

11. Restricted Equity of Canada

A portion of the Department's equity is restricted to be used for a specific purpose. Related revenues and expenses are included in the Statement of Operations. The Department operates two programs which under legislation require that the revenues be earmarked to offset the expenses of the program.

The Crop Re-insurance Fund was established pursuant to the *Farm Income Protection Act*. This program provides insurance to participating provinces for costs they incur in operating crop insurance programs. The fund records receipts and disbursements under the terms of reinsurance agreements. When there is insufficient revenues to meet payments, the Minister of Finance may authorize an advance of additional funds to cover these obligations (Note 5).

The Agricultural Commodities Stabilization Accounts were established pursuant to the *Agricultural Stabilization Act,* under which the commodity accounts formerly operated, and has since been repealed and replaced by the *Farm Income Protection Act* effective April 1, 1991. The purpose of these accounts was to reduce income loss to producers from market risks through stabilizing prices. Premiums were shared equally by the Government of Canada, the governments of participating provinces and participating producers. Current activities are limited to collection of accounts receivable.

The balances of the accounts at the end of the year are included in the Equity of Canada. Activities in these accounts are as follows:

	2010	2009 Restated (Note 16)
Crop Re-insurance Fund – Restricted		
Balance, beginning of year	$ (16,533)	$ (253,155)
Revenues	76,253	238,574
Expenses	(7,593)	(1,952)
Balance, end of year	52,127	(16,533)
Agricultural Commodities Stabilization Accounts - Restricted	647	647
Unrestricted Equity of Canada, end of year	107,959	268,362
Total Equity of Canada, end of year	$ 160,733	$ 252,476

12. Contingencies

Contingencies arise in the normal course of operations and their ultimate disposition is unknown. They are grouped into five categories as follows:

(a) Contaminated sites

Liabilities are accrued to record the estimated costs related to the management and remediation of contaminated sites where the Department is obligated or likely to be obligated to incur such costs. The Department has identified approximately 18 sites (82 sites in 2009) where such action is possible and for which a liability of $1,358,938 ($1,237,877 in 2009) has been recorded in accrued liabilities. The Department has estimated additional clean-up costs of $2,612,380 ($2,417,234 in 2009) that are not accrued, as these are not considered likely to be incurred at this time. The Department's ongoing efforts to assess contaminated sites may result in additional environmental liabilities related to newly identified sites, or changes in the assessments or intended use of existing sites. These liabilities will be accrued by the Department in the year in which they become likely and are reasonably estimable.

(b) Claims and litigation

Claims have been made against the Department in the normal course of operations. These claims include items with pleading amounts and other for which no amount is specified. Based on the Department's assessment, legal proceedings for claims estimated at $14,039,481 ($14,000,000 in 2009) were pending at March 31, 2010. Some of these potential liabilities may become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded in the financial statements.

The Department has also been named in other legal claims against the Government of Canada, related to the agricultural industry, for which amounts and likelihood of liability cannot be determined. The limited disclosure regarding the contingent liabilities for legal claims recognized by the Department is a direct reflection of the sensitivity and status of on-going claims.

(c) Loan or price guarantees

	Authorized Limit	Outstanding guarantees		Allowance as at March 31	
		2010	2009	2010	2009
Loans according to the Advance Payments Program under the *Agricultural Marketing Programs Act*	$ 5,000,000	$ 1,514,847	$ 1,523,938	$ 29,983	$ 33,221
Loans to farmers under the *Farm Improvement Loans Act* and *Canadian Agricultural Loans Act* (formerly called *Farm Improvement and Marketing Cooperatives Loans Acts*)	3,000,000	99,089	114,800	991	1,148
Price guarantee agreements with marketing agencies pursuant to the Price Pooling Program under the *Agricultural Marketing Programs Act*	No limit	17,761	14,388	-	-
		$ 1,631,697	$ 1,653,126	$ 30,974	$ 34,369

The allowance for losses is the amount recorded for estimated losses on outstanding loan guarantees and which is included in accrued liabilities. No allowance has been recorded for the Price Pooling Program of the *Agricultural Marketing Programs Act* as no costs are likely to occur.

Under the Advance Payments Program of *Agricultural Marketing Programs Act*, the Department guarantees the repayment of advances made by producer organizations to farmers in the spring and in the fall, creating a more stable business environment. The maximum cash advance of the program is $400,000. The loans generally have a repayment term of 18 months.

Under the *Farm Improvement Loans Act* and the *Canadian Agricultural Loans* Act (formerly called *Farm Improvement and Marketing Cooperatives Loans Act*), the Department guarantees loans by financial institutions to farmers for improvement and development of farms, and the processing, distribution or marketing of farm products. This program guarantees 95 percent of the value of loans provided to farms and co-operatives by financial institutions. For individual applicants, including corporations, the maximum amount for a *Canadian Agricultural Loans Act* loan is $500,000. Most loans are repayable within ten years; for loans on land purchases, the repayment period is 15 years.

Under the Price Pooling Program of the *Agricultural Marketing Programs Act*, the Department provides a price guarantee that protects marketing agencies and producers against unanticipated declines in the market price of their products.

(d) Conditionally Repayable Contributions

Under the Ruminant Slaughter Loan Loss Reserve Program, which ended in 2007, conditionally repayable contributions which are outstanding in 2010 total $20,020,640 ($20,110,000 in 2009). The funds contributed and accumulated interest are repayable within 10 years and no later than December 31, 2017, net of the amounts used to cover a portion of the loan defaults.

Under the ecoAgriculture Biofuels Capital Initiative, conditionally repayable contributions have been issued for a total amount of $19,458,836. Repayments are determined by a project's profitability, and have a maximum repayment period of seven years.

The amounts that will become repayable cannot be currently estimated. The contributions bear interest rates either at the cost of capital of the lender or at the Government of Canada 90-day bond rate, as per initial agreements with the lender.

(e) Contingent Recoveries

AgriStability and Canadian Agricultural Income Stabilization (CAIS) programs are federally and provincially/territorially cost shared programs and CAIS Inventory Transition Initiative (CITI) is a federally funded program. When provincial/territorial governments deliver these programs and overpayments occur, the federal government is entitled to recover its share of funding if and when overpayments are recovered. The Department has estimated the contingent recoverable amount as $16,175,246 ($21,084,000 in 2009). Contingent recoveries are not recorded in the financial statements.

13. Contractual Obligations

The nature of the Department's activities can result in some large multi-year contracts and obligations whereby the Department will be obligated to make future payments in order to carry out its transfer payment programs. Significant non revocable contractual obligations that can be reasonably estimated are summarized as follows:

	2011	2012	2013	2014	2015 and thereafter	Total
Transfer payments	$ 74,071	$ 10,405	$ 1,393	$ 635	-	$ 86,504
Total	$ 74,071	$ 10,405	$ 1,393	$ 635	-	$ 86,504

14. Related Party Transactions

The Department is related as a result of common ownership to all Government departments, agencies, and Crown Corporations. The Department enters into transactions with these entities in the normal course of business and on normal trade terms. During the year, the Department received common services which were obtained without charge from other Government departments as disclosed below.

Common services provided without charge by other government departments

During the year the Department received services without charge from certain common service organizations, related to the employer's contribution to the health and dental insurance plans, accommodation, legal services, and workers' compensation coverage. These services provided without charge have been recorded in the Department's Statement of Operations as follows:

	2010	2009
Employer's contribution to the health and dental insurance plans	$ 38,814	$ 36,520
Accommodation	23,272	18,525
Legal services	1,701	1,107
Workers' Compensation	1,448	1,512
Total	$ 65,235	$ 57,664

The Government has centralized some of its administrative activities for efficiency, cost-effectiveness purposes and economic delivery of programs to the public. As a result, the Government uses central agencies and common service organizations so that one department performs services for all other departments and agencies without charge. The costs of these services, such as the payroll and cheque issuance services provided by Public Works and Government Services Canada and audit services provided by the Office of the Auditor General are not included in the Department's Statement of Operations.

15. Segmented information

Presentation by segment is based on the Department's program activity architecture. The presentation by segment is based on the same accounting policies as described in the Summary of significant accounting policies in note 2. The following table presents the expenses incurred and revenues generated for the main program activities, by major object of expenses and by major type of revenues. The segment results for the period are as follows:

*	BRM	IS	SIA	TMD	OFA	RMS	EKTIM	ABD	RCD	CPMA	REF	FPCC	2010 Total	2009 Total
Expenses														
Transfer payments	$1,183,961	$(735)	$90,980	$47,721	$50,574	$49,336	$819	$38,222	$11,036	-	-	-	$1,471,914	$1,741,978
Salaries and employee benefits	33,547	223,577	138,694	40,952	31,387	34,048	65,327	4,368	8,867	4,713	5,600	2,029	593,109	595,590
Professional and other services	9,961	48,638	17,352	6,092	3,390	1,709	8,895	3,177	993	6,586	3,996	411	111,200	131,670
Allowance for loan guarantees and bad debts	41,972	(5,192)	-	-	(2,254)	(159)	-	-	-	113	-	-	34,480	63,506
Materials and supplies	337	23,866	18,880	706	8,203	4,071	7,431	22	65	107	991	152	64,831	56,954
Amortization of tangible capital assets	-	39,817	-	-	-	-	-	-	-	196	-	-	40,013	41,552
Accommodation	338	35,646	421	362	1,163	155	238	(44)	6	534	64	40	38,923	37,970
Travel	285	4,987	4,652	3,503	1,569	970	3,187	220	709	191	332	262	20,867	22,859
Repairs and maintenance	648	17,781	2,000	23	3,042	168	694	2	-	7	37	80	24,482	22,012
Electricity and other public services	-	16,226	62	-	317	-	4	-	-	6	-	-	16,615	17,815
Crop Re-Insurance Fund	7,593	-	-	-	-	-	-	-	-	-	-	-	7,593	1,952
Total expenses	1,278,642	404,611	273,041	99,359	97,391	90,298	86,595	45,967	21,676	12,453	11,020	2,974	2,424,027	2,733,858
Revenues														
Crop Re-insurance Fund	76,253	-	-	-	-	-	-	-	-	-	-	-	76,253	238,574
Sale of goods and services	2,708	1,867	15,769	-	17,379	194	33	-	-	12,398	-	-	50,348	55,232
Interest	146	5,370	37	33	42	4	2	-	-	45	6	-	5,685	8,433
Joint project and cost sharing agreements	5,288	-	-	-	-	-	-	-	-	-	-	-	5,288	4,855
Gain on disposal of assets	1	550	2,267	-	740	95	28	-	-	-	-	-	3,681	4,056
Total Revenues	84,396	7,787	18,073	33	18,161	293	63	-	-	12,443	6	-	141,255	311,150
Net cost of operations	$1,194,246	$396,824	$254,968	$99,326	$79,230	$90,005	$86,532	$45,967	$21,676	$10	$11,014	$2,974	$2,282,772	$2,422,708

*BRM – Business Risk Management ; IS – Internal Services; SIA – Science, Innovation and Adoption; TMD – Trade and Market Development; OFA – On-Farm Action; RMS – Food Safety and Biosecurity Risk Management Systems; EKTIM – Environmental Knowledge, Technology, Information and Measurement; ABD – Agri-Business Development; RCD – Rural and Co-operatives Development; CPMA – Canadian Pari-Mutuel Agency; REF – Regulatory Efficiency Facilitation; FPCC – Farm Products Council of Canada

16. Adoption of new accounting policies

During the year, the Department adopted the revised Treasury Board accounting policy TBAS 1.2: Departmental and Agency Financial Statements which is effective for the Department for the 2010 fiscal year. The major change in the accounting policies of the Department required by the adoption of the revised TBAS 1.2 is the recording of amounts due from the Consolidated Revenue Fund as an asset on the Statement of Financial Position.

The adoption of the new Treasury Board accounting policies has been accounted for retroactively with the following impact on the comparative results for 2009:

	2009 As previously stated	Effect of changes	2009 Restated
Statement of Financial Position:			
Assets	$ 2,330,959	$ 717,361	$ 3,048,320
Equity of Canada	(464,885)	717,361	252,476
Statement of Operations:			
Revenues	336,762	(25,612)	311,150
Net Cost of Operations	$ 2,397,096	$ 25,612	$ 2,422,708

17. Comparative information

Comparative figures have been reclassified to conform to the current year's presentation.

Agriculture and Agri-Food Canada

Annex to Statement of Management Responsibility including Internal Control over Financial Reporting

1. Introduction

This document is attached to Agriculture and Agri-Food Canada's Statement of Management Responsibility Including Internal Control over Financial Reporting for the fiscal-year 2009-2010. As required by the new Treasury Board Policy on Internal Control, which took effect on April 1, 2009, this document provides summary information on the measures taken by Agriculture and Agri-Food Canada to maintain an effective system of internal control over financial reporting (ICFR). In particular, it provides summary information on the assessments conducted by Agriculture and Agri-Food Canada as at March 31, 2010, including progress, results and related action plans along with some financial highlights pertinent to understanding the control environment unique to the department.

Effective systems of ICFR aim to achieve reliable financial statements and to provide assurances that:

- Transactions are appropriately authorized;
- Financial records are properly maintained;
- Assets are safeguarded from risks such as waste, abuse, loss, fraud and mismanagement; and
- Applicable laws, regulations and policies are complied with.

It is important to note that the system of ICFR is not designed to eliminate all risks, rather to mitigate risk to a reasonable level with controls that are balanced with and proportionate to the risks they aim to mitigate.

The maintenance of an effective system of ICFR is an ongoing process designed to identify and prioritize risks and the controls to mitigate these risks, as well as to monitor its performance in support of continuous improvement. As a result, the scope, pace and status of those departmental assessments of the effectiveness of their system of ICFR will vary from one organization to the other based on risks and taking into account their unique circumstances.

1.1 Authority, Mandate and Program Activities

Detailed information on Agriculture and Agri-Food Canada's authority, mandate and program activities can be found in the Departmental Performance Report and the Report on Plans and Priorities.

1.2 Financial Highlights

Financial information can be found in the financial statements (unaudited) of Agriculture and Agri-Food Canada for fiscal-year 2009-2010. Information can also be found in the Public Accounts of Canada.

Annex – Assessment of Internal Control over Financial Reporting (continued)

- Total expenses were $2.4B. Transfer payments comprise 61% of expenses followed by salaries and employee benefits of 24%.
- The Program Activity Architecture (PAA) was revised for 2009-10 to better reflect the nature of the Department's programs and activities as well as enhance the management and stewardship of its resources. Expenses and revenues of the current and comparative period are presented in accordance with the new PAA.
- Total revenues were $141M. Crop Re-insurance fund premiums comprise 54% of revenues followed by sale of goods and services of 36%.
- Financial assets consist primarily of the amount due from the Consolidated Revenue Fund (72%) followed by loans receivable (16%) and accounts receivable (12%).
- Non-financial assets consist primarily of tangible capital assets, which comprise 13% of the departmental total assets of $3B. The majority of tangible capital assets are buildings, machinery and equipment located at the agricultural research centres across Canada.
- Accounts payable and accrued liabilities comprise over 73% of total liabilities of $2.8B. Accrued liabilities related to transfer payment programs represent the largest portion of this category.
- Other liabilities of $602M consist of amounts held in trust from agricultural producers and provincial administrations under the terms of transfer payment programs to manage business risks.

Agriculture and Agri-Food Canada has a complex information systems environment that is critical to its operations and financial reporting comprised of an integrated financial system (SAP), a human resource management system (Peoplesoft), and grants and contributions delivery systems. Business processes are standardized across all locations.

1.3 Service Arrangements Relevant to Financial Statements

Agriculture and Agri-Food Canada relies on other organizations for the processing of certain transactions that are recorded in its financial statements:

- The Department of Public Works and Government Services centrally administers the payments of salaries and the procurement of goods and services as well as the provision of accommodations.
- Treasury Board Secretariat provides the Department with information used to calculate various accruals and allowances, such as the accrued severance liability.
- The Department of Justice provides legal services to all departments including Agriculture and Agri-Food Canada.

Annex – Assessment of Internal Control over Financial Reporting (continued)

1.4 Material Changes in Fiscal Year 2009-2010

In 2009-2010 Agriculture and Agri-Food Canada adopted the revised Treasury Board accounting standards for the presentation of departmental financial statements. The new standards require the presentation of the amount 'Due from the Consolidated Revenue Fund' which consists mainly in the amount that can be drawn from the Consolidated Revenue Fund without further charges to appropriations. In addition, the new standards provide a clearer definition of the reporting entity. The presentation of the activities in the statement of operations reflects changes made to the program activity architecture.

2. Agriculture and Agri-Food Canada's Control Environment Relevant to ICFR

Agriculture and Agri-Food Canada recognizes the importance of setting the tone from the top to help ensure that staff at all levels understand their roles in maintaining effective systems of ICFR and are well equipped to exercise these responsibilities effectively. Agriculture and Agri-Food Canada's focus is to ensure risks are well managed through a responsive and risk-based control environment that enables continuous improvement and innovation.

2.1 Key Positions, Roles and Responsibilities

Below are Agriculture and Agri-Food Canada's key positions and committees with responsibilities for maintaining and reviewing the effectiveness of its system of ICFR.

Deputy Head - Agriculture and Agri-Food Canada's Deputy Head, as Accounting Officer, assumes overall responsibility and leadership for the measures taken to maintain an effective system of internal control. In this role, the Deputy Head is advised by the Departmental Audit Committee and the Departmental Management Committee.

Chief Financial Officer (CFO) - Agriculture and Agri-Food Canada's CFO reports directly to the Deputy Head and provides leadership for the coordination, coherence and focus on the design and maintenance of an effective and integrated system of ICFR, including its annual assessment. Falling under the CFO responsibilities is also the management of the Corporate Risk Profile of Agriculture and Agri-Food Canada.

Senior Departmental Managers - Agriculture and Agri-Food Canada's senior departmental managers in charge of program delivery are responsible for maintaining and reviewing the effectiveness of their system of ICFR falling within their mandate.

Chief Audit Executive (CAE) - Agriculture and Agri-Food Canada's CAE reports directly to the Deputy Head and provides assurance through periodic internal audits which are instrumental to the maintenance of an effective system of ICFR.

Departmental Audit Committee (DAC) – The DAC is an advisory committee that provides objective views on the department's risk management, control and governance frameworks. It is comprised of three external members and was established in 2008. As such, it reviews Agriculture and Agri-Food Canada's Corporate

Annex – Assessment of Internal Control over Financial Reporting (continued)

Risk Profile and its system of internal control, including internal and external audit reports and the assessment and action plans relating to the system of ICFR.

Departmental Management Committee (DMC) – As the Agriculture and Agri-Food Canada's central decision-making body, the DMC reviews, approves and monitors the Corporate Risk Profile and the departmental system of internal controls, including the system of ICFR.

Horizontal Management Board (HMB) – Assistant Deputy Minister level committee with responsibility for decisions related to departmental staff, systems and finance.

Policy, Programs and Results Board (PPRB) – Assistant Deputy Minister level committee with responsibility for decisions related to programs, service, strategic policy and results frameworks.

Business Boards – The Environment Board, the Competitiveness Board and the Innovation Board.

Procurement Review Board (PRB) – Senior departmental managers review all significant contracting processes. The recommendations from the PRB are submitted to the HMB for approval.

2.2 Key organizational controls at Agriculture and Agri-Food Canada

Agriculture and Agri-Food Canada has a comprehensive internal control framework over financial transactions. This framework follows the expenditure management process of the Federal government from the initial policy approval of programs through the budgeting process to final program payments and post payment audits.

Departmental funding is controlled through a centralized budgeting and commitment control process in its integrated financial system. Contracts and contribution agreements are the subject of a rigorous approval process. Departmental practices emphasize segregation of duties and common, systematized business processes across all locations and branches.

Departmental expenditures are approved at the expenditure initiation stage, the payment approval stage and the payment control stage. Payments are subject to a quality control process that tailors verification processes to risk. Controls over payments are regularly tested for continued and consistent effectiveness.

Financial results are continually monitored through a monthly department-wide financial reporting process validated at each level of management and approved by senior management. Annual financial reports are the object of a rigorous quality control process.

Agriculture and Agri-Food Canada's control environment also includes a series of measures to equip its staff to manage risks through raising awareness, providing appropriate knowledge and tools as well as developing skills. The most relevant are:

- Departmental Ethics Office which provides information and support to staff on ethical issues.

Annex – Assessment of Internal Control over Financial Reporting (continued)

- Management Board Structure. The department is managed through thematic committees chaired by the Deputy Minister or an assistant deputy minister and composed of the Associate Deputy Minister, assistant deputy ministers and branch managers.
- Code of Ethics designed to support staff in their professional activities.
- Conflict of Interest Measures designed to instruct employees on departmental policies in regards to conflict of interest supported by regular communication and training sessions.
- Policies and procedures regarding discipline measures in case of loss of money or misconduct.
- Security Guidelines relating to the overall security program including elements of information and personnel security.
- A complete range of human resources, financial and contracting policies, communicated to all levels and supported by formal training sessions.
- A formal, documented process for the delegation of authorities for finance and human resources.
- AAFC Internal Audit function. The AAFC internal audit charter outlines roles and responsibilities of internal audit.
- Departmental Audit Committee who's role is to provide independent advice to the Deputy Minister on the department's governance, risk management practices and controls, as well as to review the internal audit plan.
- Secure financial application systems to achieve security and integrity of financial data processing.
- Transfer payment recipient risk management framework.

3. Assessment of Agriculture and Agri-Food Canada's System of ICFR

In 2006, Agriculture and Agri-Food Canada commissioned an audit readiness assessment in the context of the Government of Canada's initiative to have departments ready to sustain a controls based audit of departmental financial statements. In 2007, a planning and scoping review was conducted to determine the business processes to document. Because of evolving programming, key business processes have to be updated annually.

The requirement to assess annually the system of internal controls over financial reporting was formalized in April 2009 when the new Treasury Board *Policy on Internal Control* came into effect.

3.1 Assessment Baseline

The *Policy on Internal Control* requires departments to maintain an effective system of ICFR with the objective to provide reasonable assurance that transactions are a) appropriately authorized, b) financial records are properly maintained, c) assets are safeguarded and d) applicable laws, regulations and policies are complied with.

In so doing, departments are to assess on an annual basis both design and operating effectiveness of key controls over financial reporting in support of continuous improvement.

Annex – Assessment of Internal Control over Financial Reporting (continued)

Design effectiveness involves ensuring that key controls are designed to satisfy the entity's control objectives and can effectively prevent or detect errors or fraud that could result in material misstatements in the financial statements.

Operating effectiveness involves evaluating whether the controls are operating as designed and whether the person performing the controls possesses the necessary authority and competence to perform the controls effectively.

Such testing covers all departmental control levels which include corporate or entity, general computer and business process controls.

3.2 Assessment Method at Agriculture and Agri-Food Canada

Agriculture and Agri-Food Canada's audit readiness assessment was completed in 2006. The assessment focused on three specific areas; process and controls, financial statements and people - financial function capacity and capability. It also included recommendations to enable Agriculture and Agri-Food Canada's readiness to sustain an efficient departmental financial statement audit.

In proceeding with its preparation for control-based audit, Agriculture and Agri-Food Canada has taken measures to assess its system of ICFR. The department followed best practices in the area of internal control frameworks over financial reporting.

To ensure its work plan would adequately meet the requirements of the new Policy on Internal Control, Agriculture and Agri-Food Canada retained the services of a public accounting firm to update the risk assessment of significant business processes. The processes identified for assessment taking into consideration material accounts in the financial statements using a risk-based approach are:

- Financial close and reporting
- Budget and forecasting
- New transfer payment programs
- IT logical security (application/database)
- AgriStability
- AgriInvest
- AgriInsurance
- Generic grants and contribution business process
- Loans and Advances
- Capital assets
- IT operations
- IT change management
- Operating expenditures
- Payroll
- Revenues
- IT physical security and backups

- Entity level controls

4. Agriculture and Agri-Food Canada's Assessment Results

The 2006 audit readiness assessment identified the following top three priorities that would need to be addressed:

- All material business processes require documentation including the identification of control objectives, control activities and key controls;
- The Department needs to ensure that the key controls documented are designed, implemented, and operating effectively.
- With regards to the financial function capacity and capability, the Department needed to increase its qualified resources and fill vacant staff positions in order to sustain an efficient audit in a timely manner.

4.1 Design Effectiveness of Key Controls

Agriculture and Agri-Food Canada's programming is responsive to industry needs and therefore experiences regular changes to its programs. Because of evolving programming, ongoing operating expenditure processes were documented initially. In addition, its largest transfer payment programs, revenues and capital assets, as well as the financial close and entity level control processes were documented. Walkthroughs were conducted to confirm the design and implementation of controls. As at March 31, 2010, Agriculture and Agri-Food Canada has identified improvements needed in the design effectiveness of its controls and has begun to take steps to remedy the following areas:

- Greater consistency in the completeness, quality and timeliness of the documentation of controls.
- Documentation of general computer controls.
- Update the departmental payment verification and statistical sampling strategy to provide an assessment specific to controls over financial reporting.
- Strengthen procedures to record accrual accounting adjustments.
- Update the departmental financial monitoring activities to focus on the assessment of controls over financial reporting.
- Improve the documentation of reconciliation processes for transactions generated in sub-systems or processed under service arrangements.
- Formalization and documentation of the process for quality control and approval of departmental financial statements.
- Continue to improve the control process over capital asset existence and valuation.

4.2 Operating Effectiveness of Key Controls

Agriculture and Agri-Food Canada has an ongoing process to assess the validity and authorization of its payment transactions. The results of these tests are reporting annually to the Horizontal Management Board, a senior management board. The results of these tests showed that the level of errors was within acceptable risk tolerance margins. These tests of controls cover a portion of the financial statement assertions, specifically the authorization, validity and recording. In 2009-2010, Agriculture and Agri-Food Canada developed an operating effectiveness testing plan that will cover all significant business processes for all relevant financial statement assertions on a rotational basis.

5. Agriculture and Agri-Food Canada's Action Plan

5.1 Progress as of March 31, 2010

During 2009-2010 the documentation of the financial close and reporting, revenue and receivables as well as the capital asset processes was completed. The Department also updated its risk assessment of significant accounts and transaction processes as it relates to financial reporting.

The process to document financial statement balances, analysis of financial statement items, and quality control over the preparation of the financial statements and notes has been improved. Work has begun on a review of the quality assurance process of financial transactions to improve the efficiency and effectiveness of the sampling methodology and of the financial monitoring processes. Improvements have continued to be made on the quality control over monthly trial balances and on automated batch payment interfaces resulting in minimal occurrence of error.

5.2 Action Plan for the Next Fiscal Year and Future Years

Building on progress to date, Agriculture and Agri-Food Canada has developed a 3 year plan to fully implement the requirements of the Policy on Internal Control with a targeted state of readiness of its system of ICFR by 2012-2013. After this implementation period, the controls will be tested on a rotational basis at a frequency tailored to the risk level associated with the process. High risk controls will be evaluated yearly, medium risk on a 2 year cycle and low risk will be assessed on a 3 year cycle. During this period, remediation and re-testing will take place as issues are identified and addressed. This timeline is contingent on the level of effort required to address any gaps that will be identified in future design and operating effectiveness phases.

Agriculture and Agri-Food Canada

Annex – Assessment of Internal Control over Financial Reporting (continued)

By end of 2010-11 Agriculture and Agri-Food Canada plans to:

Complete the initial documentation and testing of high risk business processes:

-Financial close and reporting (in progress)

-General computer control logical security (application level)

-New transfer payment programs

By the end of 2011-12:

Complete the initial documentation and testing of medium risk business processes:

-Large business risk management contribution programs

-Generic contribution program delivery process

-Loans and advances

By the end of 2012-13:

Complete the initial documentation and testing of remaining medium risk and low risk business processes:

-Capital assets

-Operating expenditures (documentation completed – tests of controls to complete)

-Pay

-Revenue

-General computer controls: physical security and backups

-Entity level controls (documentation completed – tests of control to complete)

Agriculture and Agri-Food Canada

Annex – Assessment of Internal Control over Financial Reporting (continued)

Future Years:

For the years 2013-14 and thereafter, testing of key controls will be in a sustainment mode as per the following cycle:

Activity		Year 1 2013/14	Year 2 2014/15	Year 3 2015/16	Year 4 2016/17
Sustainment Mode					
High Risk (Annual)	Financial Close & Reporting	✓	✓	✓	✓
	Budgeting & Forecasting	✓	✓	✓	✓
	New Transfer Payment Programs	✓	✓	✓	✓
	IT Logical Security	✓	✓	✓	✓
Medium Risk (2 year cycle)	AgriStability		✓		✓
	AgriInvest		✓		✓
	AgriInsurance	✓		✓	
	Generic Contribution Delivery Process		✓		✓
	Loans & Advances	✓		✓	
	Capital Assets	✓		✓	
	IT Operations		✓		✓
	IT Change Management	✓		✓	
Low Risk 3 year cycle)	Operating Expenditures	✓			✓
	Payroll		✓		
	Revenues			✓	
	IT Physical Security	✓			✓
	IT Backups			✓	
	Entity Level Controls		✓		